



SOUTHEASTERN UNIVERSITY, INC.
AND SUBSIDIARY

Consolidated Financial Statements
With Independent Auditors' Report
And
Federal and State Awards
In Accordance with the Uniform Guidance
And Florida Chapter 10.650

Eleven Months Ended May 31, 2018

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Southeastern University, Inc. and Subsidiary
Lakeland, Florida

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Southeastern University, Inc. and Subsidiary (University), which comprise the consolidated statement of financial position as of May 31, 2018, and the related consolidated statements of activities and cash flows for the eleven months then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southeastern University, Inc. and Subsidiary (University) as of May 31, 2018, and the consolidated changes in its net assets and cash flows for the eleven months then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Trustees
Southeastern University, Inc. and Subsidiary
Lakeland, Florida

Prior Period Adjustments

As part of our audit of the consolidated financial statements referenced above, we also audited adjustments described in Note 16 that were applied to restate certain amounts in the June 30, 2017 financial statements. In our opinion, these adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the June 30, 2017 financial statements of Southeastern University other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2017 financial statements as a whole.

Correction of Error

As discussed in Note 16 to the financial statements, during the eleven months ended May 31, 2018, Southeastern University identified errors affecting the amounts presented in prior year financial statements. Accordingly, net assets without donor restrictions and net assets with donor restrictions have been restated as of June 30, 2017, to correct the error. Our opinion is not modified in respect to this matter.

Adoption of New Accounting Standards

As discussed in Note 2 to the consolidated financial statements, the University has adopted Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, and No. 2016-18, *Restricted Cash*. ASU No. 2016-14 had a material effect on the presentation of the May 31, 2018 financial statements, and ASU No. 2016-18 had an effect on the presentation of the restricted cash in the consolidated statement of cash flows.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) and Florida Office of Auditor General, Florida Single Audit Act, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The summary of populations, samples tested, and results obtained—Florida Student Financial Assistance Program on page 35 is presented for the purpose of additional analysis as required by the state of Florida, Florida statutes, and the State Board of Education Administrative Rules, and is not a required part of the consolidated financial statements. Such information has not been subject to the auditing procedures applied in our audit of the consolidated financial statements and accordingly, we express no opinion on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2019, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Capin Crouse LLP

Columbia, South Carolina
February 27, 2019

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Consolidated Statement of Financial Position

May 31, 2018

ASSETS:

Cash and cash equivalents	\$ 2,263,664
Students accounts receivable-net	4,684,012
Other receivables	551,983
Prepaid expenses and other assets	869,160
Student loans receivable	1,145,342
Restricted cash	6,103,472
Investments held for long-term purposes	8,521,757
Construction in progress	1,057,767
Property and equipment-net	90,598,571

Total Assets \$ 115,795,728

LIABILITIES AND NET ASSETS:

Liabilities:

Accounts payable	\$ 2,556,525
Accrued expenses and other liabilities	3,244,566
Deferred revenue	1,994,251
Funds held in federal loan programs	1,087,898
Long-term debt-net	72,964,578
Interest rate swap	1,387,943

83,235,761

Net assets:

Net assets without donor restrictions	21,757,402
Net assets without donor restrictions:	
Restricted by purpose or time	6,289,028
Restricted in perpetuity	4,513,537

32,559,967

Total Liabilities and Net Assets \$ 115,795,728

See notes to consolidated financial statements

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Consolidated Statement of Activities

Eleven Months Ended May 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITY:			
REVENUES, GAINS, AND OTHER SUPPORT:			
Tuition and fees	\$ 89,133,223	\$ -	\$ 89,133,223
Less student aid	(30,222,261)	-	(30,222,261)
Net tuition and fees	58,910,962	-	58,910,962
Auxiliary enterprises	15,225,198	-	15,225,198
Denominational support	237,959	-	237,959
Contributions	518,735	1,692,629	2,211,364
Investment income—operating portion	126,533	140,902	267,435
Loss on disposal of assets	(176,672)	-	(176,672)
Other sources	1,618,590	-	1,618,590
Net assets released from restrictions for operations	1,150,540	(1,150,540)	-
Operating Revenues, Gains, and Other Support	77,611,845	682,991	78,294,836
OPERATING EXPENSES:			
Instruction	20,505,570	-	20,505,570
Academic support	13,953,797	-	13,953,797
Student services	26,327,676	-	26,327,676
Auxiliary enterprises	8,364,741	-	8,364,741
Institutional support	15,557,192	-	15,557,192
Total Operating Expenses	84,708,976	-	84,708,976
Change in Net Assets from Operations	(7,097,131)		
NONOPERATING ACTIVITY:			
Change in value of interest rate swap	2,259,536	-	2,259,536
Investment income—nonoperating portion	-	347,643	347,643
Net assets released for expansion of plant	1,048,465	(1,048,465)	-
Change in nonoperating net assets	3,308,001	(700,822)	2,607,179
Change in Net Assets	(3,789,130)	(17,831)	(3,806,961)
Net Assets, Beginning of Year:			
As Previously Reported	26,219,555	10,824,681	37,044,236
Prior Period Adjustment (Note 16)	(673,023)	(4,285)	(677,308)
As Restated	25,546,532	10,820,396	36,366,928
Net Assets, End of Year	\$ 21,757,402	\$ 10,802,565	\$ 32,559,967

See notes to consolidated financial statements

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Consolidated Statement of Cash Flows

Eleven Months Ended May 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (3,806,961)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	8,128,620
Provision for bad debts—student accounts receivable	4,135,722
Change in fair value of interest rate swap	(2,259,536)
Contributions received for endowment	(533,939)
Net realized and unrealized gains on investments	(513,878)
Loss on disposal of property, plant, and equipment	176,672
Changes in operating assets and liabilities:	
Student accounts receivable	(4,385,964)
Other receivable	699,262
Prepaid expenses and other assets	250,041
Student loans receivable	227,907
Accounts payable	(864,026)
Accrued expenses and other liabilities	2,259,516
Deferred revenue	(506,864)
Liability under food service contract	(667,070)
Funds held in federal loan programs	(173,991)
Net Cash Provided by Operating Activities	<u>2,165,511</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales of investments	15,788,246
Purchases of investments	(17,595,035)
Purchases of property, plant, and equipment	(4,243,584)
Net Cash Used by Investing Activities	<u>(6,050,373)</u>

(continued)

See notes to consolidated financial statements

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Consolidated Statement of Cash Flows

Eleven Months Ended May 31, 2018

(continued)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from contributions restricted for investment in endowments	533,939
Reinvested endowment earnings	734
Proceeds from food service contract	2,800,000
Payments on capital lease obligations	(1,163,318)
Payment of debt principal	(1,634,788)
Net Cash Provided by Financing Activities	<u>536,567</u>
Change in Cash, Cash Equivalents, and Restricted Cash	(3,348,295)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>11,715,431</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	<u><u>\$ 8,367,136</u></u>

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated statement of cash flows:

Cash and cash equivalents	\$ 2,263,664
Restricted cash	<u>6,103,472</u>
Total cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows	<u><u>\$ 8,367,136</u></u>

SUPPLEMENTAL DISCLOSURES:

Cash paid for interest	<u><u>\$ 2,843,832</u></u>
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NONCASH INVESTING AND FINANCING ACTIVITIES:

Property, plant, and equipment acquired through capital lease obligations	<u><u>\$ 739,790</u></u>
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See notes to consolidated financial statements

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

1. NATURE OF ORGANIZATION:

Southeastern University, Inc. and Subsidiary (University) is a Christ-centered institution of higher learning. Founded in 1935 and located in the Central Florida community of Lakeland, the University offers more than 80 degree programs, including bachelor's, master's and doctoral degrees. The University's reach extends beyond the Lakeland campus, with a comprehensive online learning program and more than 100 extension site programs nationwide. The University is accredited by the Southern Association of Colleges and Schools Commission on Colleges and is affiliated with the Assemblies of God.

The University is anchored by Spirit-empowered education in a Christ-centered, student-focused learning community. The University's global impact is marked by a deep commitment to transforming minds and engaging culture through the integration of faith, learning and service. Each student's divine design is nurtured and unleashed through the investment of faculty and staff, relationships within the community, the rigor of scholarship, diverse learning experiences and the discipline of spiritual formation, which propels students into a lifetime of serving the world in the Spirit of Christ.

The University is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the University qualifies for charitable contribution deductions under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1). However, income from certain activities not directly related to the University's tax-exempt purpose is subject to taxation as unrelated business income. The University has concluded that it does not have any unrecognized tax benefits resulting from current or prior period tax positions. Accordingly, no additional disclosures have been made on the financial statements regarding the *Income Tax* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The University does not have any outstanding interest or penalties, and none have been recorded in the consolidated statement of activities for the eleven months ended May 31, 2018.

The University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award baccalaureate, master's, and doctoral degrees. The University's main sources of revenue are tuition, fees, and auxiliary income as well as donor contributions.

2. SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies followed by the University are described below to enhance the usefulness of the consolidated financial statements to the reader. The preparation of the consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the accounts of the University and Southeastern University Foundation (Foundation), a nonprofit organization supporting the University. The consolidated financial statements include the balances and financial activities of the University and the Foundation. All inter-entity accounts and transactions have been eliminated.

CASH AND CASH EQUIVALENTS

The University considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The University adheres to a gift policy of promptly converting donated securities to cash; these converted securities are also classified as cash and cash equivalents. The University has investments held for long-term purposes in the form of cash. The University's cash, including cash in a checking account considered to be investments held for long-term purposes, exceeded FDIC limits by \$10,468,665 as of May 31, 2018.

Restricted cash consists of bond issuance proceeds that may only be spent by the University to fund the costs of certain construction projects as outlined in the bond agreement. Because these restricted funds are not available for current use, they are shown separately in the accompanying consolidated statement of financial position.

STUDENT ACCOUNTS RECEIVABLE—NET

Student accounts receivable are reported net of any estimated losses due to uncollectible accounts. Bad debts are estimated using the allowance method based on historical experience and periodic evaluation of outstanding accounts receivable. The University begins charging late fees on balances over 30 days old. If a student does not re-enroll for the following semester, ninety days after the end of enrollment, the student's account will be turned over for collection. Management uses judgment in the enforcement of these policies.

The amount of the allowance is based on management's evaluation of the collectability of the receivable portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired notes, and economic conditions. The allowance for doubtful accounts is maintained at a level which, in management's judgment, is adequate to absorb potential losses inherent in the receivable portfolio.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

OTHER RECEIVABLES

Other receivables include receivables from federal and state agencies. The University has not determined any allowances for uncollectible accounts from federal and state agencies based upon past experience.

STUDENT LOANS RECEIVABLE

Student loans receivable consists of student loans extended under the Federal Perkins Loan Program. The U.S. government provides advances to the University to cover a portion of the amount loaned to students. Advances from the federal government under the Perkins Loan Program are refundable to the U.S. government upon liquidation of the program and thus are reflected as a liability in the consolidated statement of financial position.

Allowances for impaired notes are generally determined based on collateral values or the present value of estimated cash flows. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on loans, it is at least reasonably possible that management's estimate of losses inherent in the notes receivable portfolio and the related allowance may change materially in the near term. Based on past experience with receivables from federal and state agencies, no allowance for doubtful accounts on these receivables is considered necessary.

PROPERTY AND EQUIPMENT—NET

Property and equipment are reported at acquisition cost, including costs necessary to prepare the asset for its intended use, less accumulated depreciation. Purchases of fixed assets greater than \$5,000 individually or \$25,000 in aggregate are capitalized and depreciated over their useful lives. Depreciation expense is provided on a straight-line basis over the estimated useful lives of the respective assets. Generally, buildings are depreciated over 40 or 50 years, improvements are depreciated over 10 to 25 years, and other equipment is depreciated over a period between 3 and 10 years. All library books and periodicals where the University owns the content indefinitely are capitalized for a period of 10 years regardless of unit cost.

DEFERRED REVENUE

Deferred revenue represents tuition revenue for classes not yet complete and still within the tuition refund period as of May 31 of each year. Additionally, deferred revenue represents credit balances on student accounts that will be applied to future charges incurred for tuition, fees, and auxiliary enterprises.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS

The consolidated financial statements report amounts separately by class of net assets.

Without donor restrictions are those which are free of donor-imposed restrictions and all revenues, expenses, gains, and losses that are not net assets with donor restrictions.

With donor restrictions are stipulated by donors for specific operating purposes, for the acquisition of property and equipment, time-restricted, or requiring that they be held in perpetuity with investment return used for operations and scholarships.

REVENUE AND EXPENSES

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the University.

The University reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. The University shows restricted contributions whose restrictions are met in the same reporting period as contributions without donor restrictions on the consolidated statement of activities. Expenses are reported as decreases in net assets without donor restrictions.

Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or law. Donor restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value at the date of gift, except that contributions of works of art, historical treasures, and similar assets held as part of collections are not recognized or capitalized.

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The University's primary program services are instruction. Expenses reported as academic support, student services, and auxiliary enterprise are incurred in support of these primary program services.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

ADVERTISING

The University generally expenses advertising costs as they are incurred. The University expended \$1,179,163 for advertising for the eleven months ended May 31, 2018.

STUDENT FINANCIAL ASSISTANCE PROGRAMS

The University participates in various programs administered by the Department of Education (DOE) and state boards, and the University acts as an agent for the respective agencies. The governmental grants amounts reported exclude funds directly awarded and credited to students under the various federal and state programs; however, substantial portions of the tuition and fees revenue and collection of accounts receivable as of May 31, 2018, are dependent upon the University's continued participation in the various programs.

RECENTLY ISSUED ACCOUNTING STANDARDS

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The University adopted the provisions of this new standard during the eleven months ended May 31, 2018. In addition to changes in terminology used to describe categories of net assets throughout the consolidated financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 3), a statement of expenses by functional and natural classification was added and disclosures related to functional allocation of expenses were expanded (Note 13).

In 2016, FASB also issued ASU No. 2016-18, *Restricted Cash*. The University adopted the provisions of this new standard during the eleven months ended May 31, 2018. The new standard changes the presentation of the restricted cash in the consolidated statement of cash flows. Adoption of this standard had no effect on change in net assets or net assets in total.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

3. LIQUIDITY AND FUNDS AVAILABLE:

The following reflects the University's financial assets as of the consolidated statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. The board has set aside funds held as board designated reserves. These board designations could be drawn upon if the board approves that action.

Financial assets:

Cash and cash equivalents	\$ 2,263,664
Students accounts receivable-net	4,684,012
Other receivables	551,983
Investments held for long-term purposes	8,521,757
	<u>16,021,416</u>

Less those unavailable for general expenditures within one year:

Restricted by donor with purpose and time restrictions	(2,280,808)
Perpetual endowments and accumulated earnings subject to appropriation beyond one year	(8,521,757)
Board designated reserves	<u>(2,690,535)</u>

Financial assets available to meet cash needs for
general expenditures within one year

\$ 2,528,316

4. STUDENT ACCOUNTS RECEIVABLE-NET:

Student accounts receivable-net consists of:

Student accounts receivable	\$ 8,779,813
Less allowance for doubtful accounts	<u>(4,095,801)</u>
	<u><u>\$ 4,684,012</u></u>

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

5. INVESTMENTS HELD FOR LONG-TERM PURPOSES:

As of May 31, 2018, the investments held for long-term purposes in the amount of \$8,521,757 was held in a cash checking account.

During the eleven months ended May 31, 2018, the University liquidated the investments held for long-term purposes that consisted of other investments. For the portion of the year that the University held those other investments, the income on investments held for long-term purposes for the eleven months ended May 31, 2018, consisted of:

Interest and dividends	\$ 57,530
Realized and unrealized gains-net	<u>431,015</u>
	<u>\$ 488,545</u>

Income on assets held for long-term purposes for the eleven months ended May 31, 2018, was used for the following purposes:

Appropriated by the board for operations	\$ 140,902
Non-operating investment income	<u>347,643</u>
	<u>\$ 488,545</u>

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

6. CREDIT QUALITY OF FINANCING RECEIVABLES:

The University's student loan receivables consist of a revolving loan fund for Federal Perkins Loans for which the University acts as an agent for the federal government in administering the loan. As an agent for the federal government, the loan portfolio is guaranteed by the United States Department of Education. There are, therefore, no impaired loans, no nonperforming loans, and no modifications to loan terms executed by the University because amounts that become old or past due are in due course turned back over to the Department of Education. Funds advanced by the federal government of \$1,087,898 at May 31, 2018, are ultimately refundable to the government and are classified as liabilities in the consolidated statement of financial position.

The aging of the student loan portfolio by classes of loans is presented as follows:

Classes of loans	Not in repayment	Current	Less than 240 days past due	Greater than 240 days but less than 2 years past	Greater than 2 years less than 5 years past due	Greater than 5 years past due	Total
<u>As of May 31, 2018</u>							
Federal Perkins Loans	\$ 762,005	\$ 20,884	\$ 23,370	\$ 339,083	\$ -	\$ -	\$1,145,342

For the Federal Perkins loans financing receivable, the following presents the recorded investment by credit quality indicator:

Performing	\$ 806,259
Nonperforming	339,083
	<u>\$1,145,342</u>

For Federal Perkins Loans, the credit quality indicator is performance determined by delinquency status and origination and servicing of the loan. Delinquency status is updated monthly by the University's loan servicer. Federal Perkins Loans that are originated and serviced properly under Department of Education regulations can be assigned to the Department of Education when deemed no longer collectible. The University is not aware of any material amount of loans not properly originated or serviced under Department of Education regulations.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

7. PROPERTY AND EQUIPMENT—NET:

Property and equipment—net consists of:

Land and improvements	\$ 3,387,942
Buildings and improvements	127,466,437
Equipment	13,667,874
Library books and instructional resources	3,571,513
	148,093,766
Less accumulated depreciation	(57,495,195)
Net book value of property and equipment	90,598,571
Construction in progress	1,057,767
	91,656,338
Restricted cash related to bonds payable	6,103,472
Less property and equipment related liabilities	(72,964,578)
	\$ 24,795,232

8. LONG-TERM DEBT:

Long-term debt consists of:

Series 2013 City of Lakeland, Florida, Educational Facilities Revenue Refunding Bonds totaling \$33,360,000, issued November 2013 and maturing November 2023, secured by first mortgage on certain property and equipment. As of May 31, 2018, the University paid interest at 67% of 30 Day LIBOR plus 1.52% (2.85% at May 31, 2018) before the affect of the interest rate swap agreements (Note 9).

\$ 26,617,950

Series 2015 City of Lakeland, Florida, Educational Facilities Revenue Refunding Bonds totaling \$33,000,000, issued July 2015 and maturing January 2042, secured by first mortgage on certain property and equipment. The University has three years from the issuance date to use the bond proceeds; the University received \$20,305,053 of proceeds during the year ended June 30, 2016, and the remaining \$12,694,947 during the year ended June 30, 2017. As of May 31, 2018, the University paid interest at 80% of 30 Day LIBOR plus 1.82% (3.40% at May 31, 2018) before the affect of the interest rate swap agreements (Note 9).

31,956,698

Mortgage note payable to CenterState Bank, monthly payments of include interest at a variable rate equal to the 30 Day LIBOR plus 2.50% (4.48% at May 31, 2018) before the affect of the interest rate swap agreements (Note 9), maturing November 2023, secured by certain real property.

2,981,350

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

8. LONG-TERM DEBT, continued:

Long-term debt consists of, continued:

Mortgage note payable to CenterState Bank, monthly payments of \$32,360, including interest fixed at 4.70%, maturing December 2023, secured by certain real property.	4,775,862
Capital lease payable related to the University's lease purchase of copier equipment. Monthly payments of \$8,8927 including principal and imputed interest of 16.51%%.	200,176
Capital lease payable related to the University's lease purchase of equipment. Monthly payments of \$16,120 including principal and imputed interest of 5.13%.	696,140
Capital lease payable related to the University's lease purchase of equipment. Monthly payments of \$12,975 including principal and imputed interest of 5.13%.	603,830
Capital lease payable related to the University's lease purchase of media equipment. Quarterly payments of \$29,512 including principal and imputed interest of 3.84%.	87,137
Capital lease payable related to the University's lease purchase of media equipment. Monthly payments of \$43,171 including principal and imputed interest of 3.41%.	1,422,492
Capital lease payable related to the University's lease purchase of media equipment. Monthly payments of \$24,779 including principal and imputed interest of 2.90%.	451,985
Capital lease payable related to the University's lease purchase of media equipment. Monthly payments of \$22,162 including principal and imputed interest of 2.99%.	678,693
\$4,758,000 in financial commitments to food service companies, annual principal and interest payments ranging from \$77,189 to \$200,000 based on 14-year and 20-year amortizations, with final maturity dates between January 2027 and July 2031.	2,866,223
	<hr/> 73,338,536
Less debt issuance costs—net	<hr/> (373,958)
	<hr/> <u>\$ 72,964,578</u>

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

8. LONG-TERM DEBT, continued:

Maturities of long-term debt are as follows:

<u>Years Ending May 31,</u>	<u>Amounts</u>
2019	\$ 3,671,312
2020	3,465,010
2021	3,417,989
2022	2,777,391
2023	2,587,654
Thereafter	<u>57,419,180</u>
	<u>\$ 73,338,536</u>

The University is subject to certain financial and non-financial covenants set forth in its loan agreements. At May 31, 2018, the University was not in compliance with several of its financial and non-financial covenants. In response to this non-compliance, the lenders have unconditionally waived the right to demand payment for more than one year from May 31, 2018.

9. INTEREST RATE SWAP:

The University follows the *Derivatives and Hedging* topic of the FASB Accounting Standards Codification. The topic, as amended, requires derivative contracts to be recorded on the consolidated statement of financial position as an asset or a liability measured at its fair value. The change in the derivative's fair value is recognized currently in change in net assets as nonoperating revenue.

The University entered into a ten-year interest rate swap agreement beginning November 2013, with the intent of reducing the impact of changes in interest rates on its Series 2013 variable rate demand nontaxable bonds. The Series 2013 bond debt balance (notional amount) was \$33,360,000. The notional amount outstanding as of May 31, 2018, was \$29,599,300, and will decline throughout the term of the loan based on amortization of principal amounts. As a result of the interest rate swap agreement, the University pays a fixed rate of 4.12% on the notional amount, which is included in the change in fair value of the derivative contract in the current period.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

9. INTEREST RATE SWAP, continued:

The University entered into a twelve-year interest rate swap agreement beginning July 2015, with the intent of reducing the impact of changes in interest rates on its Series 2015 variable rate demand nontaxable bonds. The Series 2015 bond debt balance (notional amount) was \$33,000,000. The notional amount outstanding as of May 31, 2018, was \$29,064,352 and will decline throughout the term of the loan based on amortization of principal amounts. As a result of the interest rate swap agreement, the University pays a fixed rate of 4.14% on the notional amount, which is included in the change in fair value of the derivative contract in the current period.

Contractual interest rate terms for the University's derivative contract at May 31, 2018, were:

	Fixed Rate Payor (University)	Variable Rate Payor (Center State Bank)	Remaining Term of Contract in Years
November 2013 contract	4.12%	2.86%	6
July 2015 contract	4.14%	3.42%	10

The liability resulting from the estimated difference between the fixed rate and the projected variable rate was \$1,387,943 as of May 31, 2018. This amount is recomputed each year using the projected interest rates then existing at the year-end. The change of \$2,259,536 is included in the nonoperating section in the consolidated statement of activities.

10. DISCLOSURES OF FAIR VALUE AND FAIR VALUE MEASUREMENTS:

The *Fair Value Measurements and Disclosure* topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical instruments and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical instruments, and Level 3 inputs have the lowest priority. The University uses appropriate valuation techniques based on the available inputs to measure the fair value of its instruments. When available, the University measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

Fair values measured on a recurring basis at May 31, 2018, are as follows:

	Fair Value Measurements at			
	May 31, 2018			
	Level 1	Level 2	Level 3	Total
Interest rate swap liability	\$ -	\$ 1,387,943	\$ -	\$ 1,387,943

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

10. DISCLOSURES OF FAIR VALUE AND FAIR VALUE MEASUREMENTS, continued:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Interest rate swap—The fair value of interest rate swap agreements is the estimated amount that the financial institutions would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties. The interest rate swap agreements are included in other liabilities.

Changes in valuation techniques—None.

11. NET ASSETS:

Net assets consist of:

Net assets without donor restrictions:

Undesignated	\$ (5,728,365)
Designated by the board for plant reserves	892,906
Designated by the board for capital projects	1,797,629
Net investment in land, buildings, and equipment	24,795,232
	<u>21,757,402</u>

Net assets with donor restrictions:

Subject to expenditure for specified purpose or by time:

Specific projects	1,126,756
Scholarship funds	98,897
Accumulated endowment earnings—restricted for scholarships	4,008,220
Missions	50,155
Performing Arts Center	1,005,000
	<u>6,289,028</u>

Subject to restriction in perpetuity:

Endowment funds—restricted for scholarships	4,513,537
	<u>4,513,537</u>

\$ 32,559,967

Net assets released from restrictions consists of:

Satisfaction of purpose restrictions	\$ 1,009,638
Appropriated endowment amounts	140,902
	<u>\$ 1,150,540</u>

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

12. ENDOWMENT FUNDS:

The University's endowment consists of approximately 60 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of trustees of the University has interpreted the Florida Prudent Management of Institutional Funds Act (FPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restriction, original gift, is classified as net assets without donor restriction, accumulated gains, until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by FPMIFA. In accordance with FPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

Endowment net asset composition by type of fund as of May 31, 2018:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gift	
Donor-restricted endowments	\$ -	\$ 4,008,220	\$ 4,513,537	\$ 8,521,757
	<u>\$ -</u>	<u>\$ 4,008,220</u>	<u>\$ 4,513,537</u>	<u>\$ 8,521,757</u>

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

12. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the eleven months ended May 31, 2018:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gift	
Endowment net assets, July 1, 2017	\$ -	\$ 3,661,311	\$ 3,978,864	\$ 7,640,175
Investment return:				
Dividend and interest income	-	56,796	734	57,530
Net gains (realized & unrealized)	-	431,015	-	431,015
	-	487,811	734	488,545
Contributions	-	-	533,939	533,939
Appropriations	-	(140,902)	-	(140,902)
Endowment net assets, May 31, 2018	\$ -	\$ 4,008,220	\$ 4,513,537	\$ 8,521,757

Funds with Deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or FPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, there are no deficiencies of this nature as of May 31, 2018.

Return Objectives and Risk Parameters:

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to provide an average annual total real rate of return, adjusted for inflation, of five to six percent, as measured over a three-year to five-year market period, and the same time to outperform selected weighted market indices. During the eleven months ended May 31, 2018, the University liquidated its endowment investments into a checking account where the funds are being maintained until they are invested with a new investment firm.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

12. ENDOWMENT FUNDS, continued:

Strategies Employed for Achieving Objectives:

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Related to Spending Policy:

The University has a policy of appropriating for distribution each year up to four percent of its endowment fund's beginning of year invested endowment balance. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of five to six percent annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

13. EXPENSES BY BOTH NATURE AND FUNCTION:

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis. Salaries are allocated directly to the function where time and effort are expended and benefits, are allocated using the salary allocation.

Functional expenses by natural classification as of May 31, 2018:

	Program Activities				Total Program	Institutional Support		Total Expenses
	Instruction	Academic Support	Student Services	Auxiliary Enterprises		General and Administrative	Fund-raising	
Salaries and benefits	\$ 18,984,837	\$ 6,489,582	\$ 9,296,465	\$ 153,826	\$ 34,924,710	\$ 7,993,265	\$ 421,781	\$ 43,339,756
Depreciation expense	649,214	625,657	3,555,891	3,028,922	7,859,684	303,731	30,648	8,194,063
Interest expense	228,136	219,857	1,249,550	1,064,371	2,761,914	106,732	10,770	2,879,416
Professional fees	-	-	87,244	-	87,244	557,166	2,143	646,553
Utilities	127,837	123,198	700,190	596,424	1,547,649	59,808	6,035	1,613,492
Printing and postage	1,004	69,600	115,896	1,488	187,988	81,688	31,150	300,826
Office supplies and expense	3,735	96,255	162,926	3,109	266,025	276,592	11,019	553,636
Repairs and maintenance	580	524,074	409,407	105,195	1,039,256	774,722	16,965	1,830,943
Travel and conferences	24,560	298,577	1,557,688	2,714	1,883,539	322,087	48,549	2,254,175
Insurance	64,506	62,165	470,384	300,953	898,008	30,179	3,045	931,232
Service contracts	21,558	810,615	449,718	3,052,825	4,334,716	2,163,397	428,773	6,926,886
Advertising	-	31,970	1,127,769	-	1,159,739	12,204	7,220	1,179,163
Memberships, supplies, and events	139,164	4,162,946	1,392,961	1,067	5,696,138	227,670	28,825	5,952,633
Study abroad and missions	256,134	-	1,102,951	-	1,359,085	-	-	1,359,085
Other expenses	4,305	439,301	4,648,636	53,847	5,146,089	804,682	796,346	6,747,117
	\$ 20,505,570	\$ 13,953,797	\$ 26,327,676	\$ 8,364,741	\$ 69,151,784	\$ 13,713,923	\$ 1,843,269	\$ 84,708,976

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

14. COMMITMENTS AND CONTINGENCIES:

LEASES

The University entered into several operating lease agreements consisting of office equipment rental and vehicle leases. Total expense for operating leases was \$364,326 for the eleven months ended May 31, 2018. In addition, the University has obligations for certain equipment under capital leases. At May 31, 2018, the gross amount of equipment and related accumulated amortization recorded under the capital lease was as follows:

Equipment	\$ 4,220,226
Less accumulated amortization	<u>(1,447,684)</u>
Net book value	<u><u>\$ 2,772,542</u></u>

Future minimum lease payments under noncancelable leases are as follows:

<u>Years Ending May 31,</u>	<u>Capital</u>	<u>Operating</u>
2019	\$ 1,626,128	\$ 542,458
2020	1,405,688	493,190
2021	1,012,604	220,947
2022	346,539	77,040
2023	51,837	78,576
Thereafter	<u>-</u>	<u>330,396</u>
	4,442,796	<u><u>\$ 1,742,607</u></u>
Less amount representing interest	<u>(302,343)</u>	
Present value of net minimum capital lease payments	<u><u>\$ 4,140,453</u></u>	

LINE OF CREDIT

In August 2015, the University initiated a new unsecured line of credit with a bank of up to \$2,000,000. This line of credit requires interest-only payments monthly at the rate of three percent. At May 31, 2018, the University did not have an outstanding balance against the line of credit.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

14. COMMITMENTS AND CONTINGENCIES, continued:

STUDENT FINANCIAL ASSISTANCE PROGRAMS

Activity related to student financial assistance programs is subject to audit both by independent certified public accountants and by representatives of the administering agencies regarding compliance with applicable regulations. Any resultant findings of noncompliance could potentially result in the required return of related funds received and/or the assessment of fines or penalties, or the discontinuation of eligibility for participation. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position or result of activities of the University.

CONSTRUCTION COMMITMENTS

During the year ended May 31, 2018, the University entered into two general construction service contracts relating to the welcome center and track and field area. These projects have a combined estimated cost of approximately \$13,000,000. As of May 31, 2018, approximately \$185,000 of the estimated costs of the projects has been completed, with a remaining construction commitment of approximately \$12,815,000 expected to be incurred subsequent to May 31, 2018.

15. EMPLOYEE BENEFITS:

The University has a 403(b) defined contribution retirement plan for all academic and nonacademic personnel. The University contributes seven percent of wages for all eligible employees, and this contribution totaled \$1,768,945 for the eleven months ended May 31, 2018.

16. PRIOR PERIOD ADJUSTMENTS:

During the eleven months ended May 31, 2018, management determined that the prior period records contained misstatements that required correction. The misstatements included entries to correct balances in fixed assets, capital lease obligations, and net assets. Accordingly, prior period adjustments have been recorded to correct the errors. The effects of these adjustments on the beginning net assets without donor restrictions and net assets with donor restrictions as of July 1, 2017, and the change in net assets for the year ended June 30, 2017, were as follows:

	As Previously Stated	Prior Period Adjustment	As Restated
Net assets without donor restrictions	\$ 26,219,555	\$ (673,023)	\$ 25,546,532
Net assets with donor restrictions	\$ 10,824,681	\$ (4,285)	\$ 10,820,396
Change in net assets without donor restrictions	\$ 1,616,254	\$ (363,633)	\$ 1,252,621
Change in net assets with donor restrictions	\$ 1,504,588	\$ -	\$ 1,504,588
Total change in net assets	\$ 3,120,842	\$ (363,633)	\$ 2,757,209

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

May 31, 2018

17. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through February 27, 2019, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

In October 2018, the University transferred the investments held for long-term purposes from a cash checking account to an account managed by an investment firm.

FEDERAL AND STATE AWARDS

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Schedule of Expenditures of Federal Awards and State Financial Assistance

Eleven Months Ended May 31, 2018

Federal Grantor/Pass Through Grantor/Program or Cluster Title	CFDA/ CSFA Number	Agreement Number	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
STUDENT FINANCIAL ASSISTANCE CLUSTER:					
U.S. Department of Education:					
Federal Direct Student Loan Program	84.268			\$ -	\$ 36,702,526
Federal Pell Grants	84.063			-	9,897,085
Federal Supplemental Educational Opportunity Grant Program	84.007			-	190,615
Federal Work-Study Program	84.033			-	170,086
Federal Perkins Loan Program (Note C)	84.038			-	1,370,560
TEACH Grants	84.379			-	132,628
Total Student Financial Assistance Cluster					<u>48,463,500</u>
Total expenditures of federal awards					<u><u>48,463,500</u></u>
STATE PROJECTS:					
Florida Department of Education:					
Florida Resident Access Grant	48.064			-	6,386,680
Florida Student Assistance Grant	48.054			-	274,806
Florida Bright Futures Academic Scholars	48.059			-	924,855
Florida Bright Futures Medallion Scholars	48.059			-	451,682
Florida Gold Seal Vocational Scholarships	48.059			-	7,824
Florida Minority Teacher Education Scholarship	48.049			-	10,000
Florida Children and Spouses of Deceased and Disabled Veterans	48.055			-	85,436
Total Florida Department of Education					<u>8,141,283</u>
Total Expenditures of Federal and State Awards					<u><u>\$ 56,604,783</u></u>

See notes to schedule of expenditures of federal awards and state financial assistance

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance

May 31, 2018

A. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards and state financial assistance (the schedule) includes the federal grant activity of Southeastern University, Inc. and Subsidiary (University) under programs of the federal and state of Florida governments for the eleven months ending May 31, 2018. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements. If the University is required to match certain federal assistance, as defined by the grant agreements, no such matching has been included as expenditures in the schedule.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures in the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

C. FEDERAL PERKINS LOAN PROGRAM:

The University administers the Perkins Loan Program. For purposes of the schedule, the amount reported includes the outstanding loan balance at the beginning of the fiscal year, new loans disbursed during the fiscal year, and administrative cost allowance, if any.

Outstanding loan balance at June 30, 2017	\$	1,370,560
Loan disbursements made to students during the fiscal year ending May 31, 2018	\$	-
Administrative cost allowance for the fiscal year ending May 31, 2018	\$	-
Outstanding loan balance at May 31, 2018	\$	1,145,342

Due to regulation changes for the Perkins Loan Program, no further loan disbursements can be made from the program. Schools have the option of continuing to collect on outstanding loan balances or can voluntarily liquidate the program. The University has no current plans to begin the Perkins liquidation process.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Schedule of Expenditures of Federal Awards

May 31, 2018

D. RELATIONSHIP TO CONSOLIDATED FINANCIAL STATEMENTS:

The amount of total expenditures of federal awards reconciles to the revenue in the consolidated statement of activities as follows:

Total expenditures of federal awards	\$ 56,604,783
Less:	
Federal Direct Student Loan Program	(36,702,526)
Federal Pell and TEACH Grants	(10,029,713)
Perkins loan program	(1,370,560)
FSEOG and FWS netted with awards	(360,701)
State student financial assistance programs	<u>(8,141,283)</u>
Government grants per consolidated statement of activities	<u>\$ -</u>

E. SUBRECIPIENTS, NON-CASH ASSISTANCE, FEDERAL INSURANCE, LOANS, AND LOAN GUARANTEES:

The University did not provide any federal funds to subrecipients nor did they receive any federal non-cash assistance, insurance, loans, or loan guarantees.

**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Southeastern University, Inc. and Subsidiary
Lakeland, Florida

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the consolidated financial statements of Southeastern University, Inc. and Subsidiary (University), which comprise the consolidated statement of financial position as of May 31, 2018, and the related consolidated statements of activities and cash flows for the eleven months then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 27, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 to be material weaknesses.

Board of Trustees
Southeastern University, Inc. and Subsidiary
Lakeland, Florida

Internal Control Over Financial Reporting, continued

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-003 through 2018-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the University in a separate letter dated February 27, 2019.

Organization's Response to Findings

The University's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Capin Crouse LLP

Columbia, South Carolina
February 27, 2019

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE
CHAPTER 10.650, RULES OF THE AUDITOR GENERAL**

Board of Trustees
Southeastern University, Inc. and Subsidiary
Lakeland, Florida

Report on Compliance for Each Major Federal Program

We have audited Southeastern University, Inc. and Subsidiary (University) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* and the requirements described in the *Florida Department of Financial Services State Projects Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the eleven months ended May 31, 2018. The University's major federal programs and state financial assistance programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.650, *Rules of the Auditor General*. Those standards and the Uniform Guidance and Chapter 10.650 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and state financial assistance project. However, our audit does not provide a legal determination of the University's compliance.

Board of Trustees
Southeastern University, Inc. and Subsidiary
Lakeland, Florida

Opinion on Each Major Federal Program and State Financial Assistance Project

In our opinion, Southeastern University, Inc. and Subsidiary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state financial assistance projects for the eleven months ended May 31, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and Chapter 10.650 and which are described in the accompanying schedule of findings and questioned costs as items 2018-005 through 2018-007. Our opinion on each major federal program and state financial assistance project is not modified with respect to these matters.

Organization's Response to Findings

The University's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program and state financial assistance project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and state financial assistance program to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Board of Trustees
Southeastern University, Inc. and Subsidiary
Lakeland, Florida

Report on Internal Control Over Compliance, continued

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and Chapter 10.650. Accordingly, this report is not suitable for any other purpose.

Capin Crouse LLP

Columbia, South Carolina
February 27, 2019

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Summary of Populations, Samples Tested, and Test Results Obtained— Florida Student Financial Assistance Program

Eleven Months Ending May 31, 2018

	Number of Students	Percentage of Population	Amount of Awards	Percentage of Population
Florida Resident Access Grant				
Population **	2176	100%	\$ 6,386,680	100%
Tested	50	2%	153,450	2%
Findings	0	0%	-	0%
Florida Student Assistance Grant				
Population **	255	100%	274,806	100%
Tested	50	20%	58,500	21%
Findings	0	0%	-	0%
Florida Academic Scholars Award				
Population **	139	100%	924,855	100%
Tested	35	25%	230,645	25%
Findings	0	0%	-	0%
Florida Medallion Scholars Award				
Population **	214	100%	451,682	100%
Tested	50	23%	104,489	23%
Findings	0	0%	-	0%
Florida Gold Seal Vocational Scholars Award				
Population **	7	100%	7,824	100%
Tested	7	100%	7,824	100%
Findings	0	0%	-	0%
Children & Spouses of Deceased Veterans Award				
Population **	17	100%	85,436	100%
Tested	10	59%	48,548	57%
Findings	1	6%	1,272	1%
Florida Minority Teacher Education Scholarship				
Population **	3	100%	10,000	100%
Tested	3	100%	10,000	100%
Findings	0	0%	-	0%

** See Note B

See notes to summary of populations, samples tested and test results obtained

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Summary of Populations, Samples Tested, and Test Results Obtained– Florida Student Financial Assistance Program

May 31, 2018

A. SUMMARY OF FLORIDA STUDENT FINANCIAL ASSISTANCE PROGRAMS:

Below is a summary of significant features and applicable statutes and rules of importance to the administration of the Florida Student Financial Assistance Programs at Southeastern University.

Florida Resident Access Grant (FRAG): The FRAG provides financial assistance to Florida undergraduate students attending independent nonprofit Florida colleges or universities. It is a nonrepayable grant available to one-year residents of Florida. The FRAG is not based on need. A student may receive the FRAG for a maximum of nine undergraduate semesters. The amount to be awarded to each applicant will be determined by the State of Florida. The FRAG is a tuition and fee grant; therefore, the amount of the FRAG plus all other scholarships and grants specifically designated for payment of tuition and fees cannot exceed the total amount of tuition and fees charged by the institution. FRAG is authorized by Section 1009.89, Florida Statutes.

Florida Student Assistance Grant Fund (FSAG): The FSAG is a nonrepayable grant awarded only on a need basis to one-year residents of Florida. A student may receive the FSAG for a maximum of nine undergraduate semesters. The amount to be awarded to each applicant will be determined by the State of Florida. FSAG is authorized by Section 1009.50-1009.52, Florida Statutes.

Florida Bright Futures Scholarship Programs (FBFSP): The Florida Bright Futures Scholarship Program provides certain qualified, full-time, first-time-in-college, undergraduate students with assistance in paying for the costs of education. FBFSP is available only to Florida residents attending eligible colleges and universities located in the State of Florida. Students apply directly to the Florida Department of Education Office of Student Financial Assistance who determines initial and continued eligibility of the student. The amount awarded to each applicant is based on the credit hours attempted by the applicant per term at a rate per credit hour set by the Florida legislator. FBFSP is authorized by Section 1009.53, Florida Statutes. There are three award programs under FBFSP that the University participates in, Florida Academic Scholars Award (FAS), Florida Medallion Scholars Award (FMS) and Florida Gold Seal Vocational Scholarships (GSV). FAS and FMS are financial aid programs for students enrolled in a four-year degree program. The difference between the two programs is minimum GPA requirements. GSV is a program for students enrolled in a career education or certificate program.

Children and Spouses of Deceased or Disabled Veterans (CSDDV): The applicant must be a dependent child or un-remarried spouse of a Florida veteran or service member who died as a result of service-connected injuries, diseases, or disabilities sustained while on active duty or have been verified by the Florida Department of Veterans Affairs as having service connected 100% total and permanent disabilities. Veterans must have been Florida residents at the time of death or determination of 100% disability. The applicant must enroll in an eligible post-secondary institution at least half-time. CSDDV is governed by Section 295.01, Florida Statutes.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Notes to Summary of Populations, Samples Tested, and Test Results Obtained— Florida Student Financial Assistance Program

May 31, 2018

A. SUMMARY OF FLORIDA STUDENT FINANCIAL ASSISTANCE PROGRAMS, continued:

Florida Minority Teachers Education Scholarships (MTES): MTES is administered by the Florida Fund for Minority Teachers Inc. and provides financial assistance to minority undergraduate students for up to three undergraduate years. This scholarship shall be made to eligible students entering programs of study that lead to a degree in teaching. The MTES is authorized by Section 1009.6, Florida Statutes.

B. POPULATION AND SAMPLE SELECTIONS:

The populations were provided by the Bureau of Auditing Services, Florida Department of Education.

Samples were determined using State of Florida Administrative Code guidelines provided in Rule 6A-20.0021. A random sample of 50 award recipients or 25%, whichever is less, but no less than 10 award recipients or 100% of the recipients if less than 10, were chosen for each program.

Students were classified as ineligible if our examination of supporting documentation disclosed instances of noncompliance with eligibility criteria. Awards were classified as questioned costs if our examination disclosed one or more of the following conditions: awards made to ineligible students, awards for which supporting documentation was missing and awards or the portions therefor, not properly credited to students' accounts.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Schedule of Findings and Questioned Costs

May 31, 2018

Section I – Summary of Audit Results

Consolidated Financial Statements:

Type of auditors' report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered a material weakness? yes none reported

Noncompliance material to consolidated financial statements noted?

yes no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered a material weakness? yes none reported

Type of auditors' report issued on compliance for major programs: unmodified

Any audit findings that are required to be reported in accordance with 2 CFR Part 200.516(a)?

yes no

Identification of major program(s):

CFDA Numbers
84.268, 84.063, 84.007, 84.033,
84.038 and 84.379

Name of Federal Program or Cluster
Student Financial Assistance

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?

yes no

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Schedule of Findings and Questioned Costs

May 31, 2018

Section I – Summary of Audit Results, continued

Florida State Awards:

Internal control over major programs:

- Material weakness(es) identified? _____ yes no
- Significant deficiency(ies) identified that are not considered a material weakness? _____ yes none reported

Type of auditors' report issued on compliance for major programs: unmodified

Any audit findings that are required to be reported in accordance with Chapter 10.650? yes _____ no

Identification of major program(s):

<u>CSFA Numbers</u>	<u>Name of State Program or Cluster</u>
48.049, 48.054, 48.055, 48.059 and 48.064	Student Financial Assistance

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes _____ no

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Schedule of Findings and Questioned Costs

May 31, 2018

Section II – Financial Statement Findings

2018-001 Management’s Application of Generally Accepted Accounting Principles

Material Weakness

Condition: The audit process identified accounting errors that were the result of the misapplication of generally accepted accounting principles, which caused the prior year audited consolidated financial statements to be materially misstated. Further, during the audit, we proposed a material adjustment to certain account balances and transaction classes.

Criteria: Generally Accepted Accounting Principles in the United States of America (GAAP)

Effect: Material misstatements were identified during the audit requiring adjustments needed so that the consolidated financial statements are materially correct.

Cause: Turnover in staffing and finance department administration

Recommendation: We recommend that management examine the internal controls relating to the financial reporting process to ensure that entries are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). We also recommend that management reconcile and close the financial records and prepare financial reports in accordance with GAAP monthly.

Views of Responsible Officials: Management is in agreement with the finding and is in the process of addressing the issue. See attached corrective action plan.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Schedule of Findings and Questioned Costs

May 31, 2018

Section II – Financial Statement Findings, continued

2018-002 Historical Reliance on External Audit and Lack of Oversight and Monitoring by Those Charged with Governance

Material Weakness

Condition: The University historically has relied on the annual consolidated financial statement audit to mitigate the risk of inaccurate and incomplete financial reporting. The annual audit has been an integral step in the annual closing of the financial records, i.e. “the books.” Professional standards state that this type of reliance is an indicator of a material weakness in the monitoring role of corporate governance.

Criteria: Current auditing standards and adequate internal controls

Effect: Risk of and opportunity for undetected errors or irregularities to occur which could result in inaccurate or incomplete financial reporting.

Cause: Past reliance on annual consolidated financial statement audit to mitigate risk

Recommendation: We recommend that the board of trustees appoint a distinct audit committee comprised of qualified individuals and develop a charter which will direct that committee in the performance of their duties.

Views of Responsible Officials: Management is in agreement with the finding and is in the process of addressing the issue. See attached corrective action plan.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Schedule of Findings and Questioned Costs

May 31, 2018

Section II – Financial Statement Findings, continued

2018-003 Lack of Segregation of Duties

Significant Deficiency

Condition: There is a lack of segregation of duties over contribution receipts and cash disbursements processes.

Criteria: Proper internal controls to safe guard assets

Effect: Risk for undetected errors and irregularities

Cause: Lack of staffing

Recommendation: For the contribution processing, we recommend two or more people be present during and participate in the processing of the mail that contains contributions. We further recommend that the office of institutional advancement and the business office reconcile the contributions recorded in the donor database and general ledger on at least a quarterly basis. For cash disbursements, we recommend that the ability to initiate and release electronic payments be restricted to authorized signers. We further recommend that automated dual controls be established over electronic payment, whereby one individual initiates the payment and another individual releases the payment.

Views of Responsible Officials: Management is in agreement with the finding and is in the process of addressing the issue. See attached corrective action plan.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Schedule of Findings and Questioned Costs

May 31, 2018

Section II – Financial Statement Findings, continued

2018-004 Journal Entries

Significant Deficiency

Condition: The accounting manager and the controller review journal entries that are provided to them; however, we noted that there is not a process in place to ensure that all manual journal entries are reviewed.

Criteria: Proper internal controls

Effect: Risk for undetected errors and irregularities in accounting records

Cause: Oversight by management

Recommendation: We recommend that the controller run a journal entry report on a monthly basis and ensure that all journal entries have been reviewed.

Views of Responsible Officials: Management is in agreement with the finding and is in the process of addressing the issue. See attached corrective action plan.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Schedule of Findings and Questioned Costs

May 31, 2018

Section III – Federal Award Findings and Questioned Costs

2018-005 Need Analysis

DEPARTMENT OF EDUCATION

CFDA #: 84.268

Federal Award Identification #: 17/18 Financial Aid Year

Condition: The University did not always award students the maximum amount of Federal Direct Loans based on their need and enrollment status.

Criteria: 34 CFR 685.200(a)

Questioned Costs: Not applicable.

Context: Out of the 60 students tested for correct need analysis, 2 were under awarded subsidized Federal Direct Loans (FDL). 1 student was under awarded \$1,000 in subsidized FDL based on grade level. 1 student was under awarded \$761 in subsidized FDL based on an incorrect allocation between subsidized and unsubsidized FDL.

Effect: The students did not receive the maximum amount of subsidized FDL based on their eligibility.

Cause: The student who was awarded at the incorrect grade level was a transfer student. After his completed transfer credits were updated in the financial aid system, it was not identified that the student was eligible for more subsidized loans. The remaining student was awarded below his eligibility due to an error in the financial aid system.

Identification as repeat finding, if applicable: Yes, see 2017-002.

Recommendation: We recommend that the University periodically run reports to review any changes to a student's information after initial packaging to identify any possible impact on the student's financial need.

Views of Responsible Officials: Management is in agreement with the finding, and is in the process of correcting the issue, see corrective action plan.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Schedule of Findings and Questioned Costs

May 31, 2018

Section III – Federal Award Findings and Questioned Costs, continued

2018-006 Inaccurate Reporting Enrollment Status to the National Student Loan Data System (NSLDS)

DEPARTMENT OF EDUCATION

CFDA #: 84.268

Federal Award Identification #: 17/18 Award Year

Condition: The University did not always accurately update NSLDS enrollment status effective date for students who withdrew.

Criteria: 34 CFR 685.309(a)

Questioned Costs: Not applicable.

Context: Out of 62 students tested for proper NSLDS enrollment status, 2 students who withdrew had an incorrect effective withdrawal date. 1 student was reported with an effective date 3 months after the actual withdraw date and 1 student was 30 days after withdraw date.

Effect: Inaccurate reporting can impact a student's loan grace period, in school deferment eligibility, beginning loan repayments, appropriate interest charges, etc.

Cause: There was miscommunication between student financial services and the registrar's office resulting in the incorrect data being used to update the effective withdrawal date for students who withdrew during a term.

Identification as repeat finding, if applicable: Not applicable. The prior year finding was related to timeliness of reporting corrections to NSLDS which was corrected.

Recommendation: We recommend that the University establish a procedure for communication, or a uniform report, that is used by the registrar's office to update the effective withdrawal date in NSLDS. We also recommend that student financial services periodically review the NSLDS enrollment status for students who withdrew to verify that the correct effective withdrawal date was used.

Views of Responsible Officials: Management is in agreement with the finding and is in the process of correcting the issue, see corrective action plan.

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY

Schedule of Findings and Questioned Costs

May 31, 2018

Section IV – State Financial Assistance Projects Findings and Questioned Costs

2018-007 Ineligible Student for Florida Children & Spouses of Deceased & Disabled Veterans (CSDDV)

FLORIDA OFFICE OF STUDENT FINANCIAL AID

CSFA #: 48.055

Federal Award Identification #: 17/18 Award Year

Condition: 1 student awarded CSDDV did not meet the program eligibility requirements.

Criteria: Section 295.01, Florida Statutes

Questioned Costs: \$1,272

Context: Out of 10 students tested for CSDDV, 1 student did not meet the eligibility requirements as the student did not attend at least ½ time. While the funds were reversed on the student's account, the funds were not returned to the Florida Office of Student Financial Aid.

Effect: Noncompliance with Florida statutes.

Cause: There was miscommunication between student financial services and the registrar's office resulting in the student financial services not being updated on the student's lack of attendance.

Identification as repeat finding, if applicable: Not applicable.

Recommendation: We recommend that the University establish a procedure for communication, or a uniform report, that is used by the registrar's office to notify the student financial services department of student's who drop and withdraw.

Views of Responsible Officials: Management is in agreement with the finding and is in the process of addressing the issue. See attached corrective action plan.

SOUTHEASTERN UNIVERSITY

Southeastern University

Auditee Summary Schedule of Prior Year Findings

May 31, 2018

Financial Statement Findings

There were no financial statement findings for the fiscal year ended May 31, 2017.



SOUTHEASTERN UNIVERSITY

Southeastern University **Auditee Summary Schedule of Prior Audit Findings**

May 31, 2018

Federal Award Findings

Finding Number: 2017-001 Timely Correction of NSLDS

Condition: During the student file testing of Direct Loan and Pell Grant programs, a sample of students was selected to test for timeliness of reporting student status changes to the National Student Loan Data System (NSLDS). During the testing, it was noted that the rosters returned yielded error reports that were not corrected and resubmitted within the required 10 days.

Recommendation: That the University implement additional steps to ensure that the error records are submitted within the required time frame. Also recommended that the University access the National Student Clearing House website and review the report of rejected records after each submission of rosters to ensure all items have been cleared.

Current Status: Corrected. A new system has been developed and implemented to review the SSCR as soon as errors are recorded. This will ensure errors are corrected both in the reporting file and within our student information system.

Reason for Reoccurring Finding and Planned Corrective Action: Not applicable

Finding Number: 2017-002 Federal Direct Loan Need Analysis

Condition: During the student file testing of Federal Direct Loan Need Analysis, it was noted that two student were disbursed subsidized loans above their need that should have been allocated to unsubsidized.

Recommendation: That the University review their awarding procedures and implement procedures to ensure students are awarded correctly based on their calculated financial need. Any changes to the student's information after initial packaging should be reviewed to identify any possible impact on the student's financial need.

SOUTHEASTERN UNIVERSITY

Southeastern University

Auditee Summary Schedule of Prior Audit Findings

May 31, 2018

Federal Award Findings, continued

Finding Number: 2017-002 Federal Direct Loan Need Analysis, continued

Current Status: The Office of Student Financial Services has created several quality control reports that can be generated at any day/time to identify any students who appear to be in an overaward situation for need based Title IV funds. SFS staff were given additional training on review of these reports and other quality control activities at a minimum, every semester. Additionally, the review and confirmation of award fund set up and identification in our software will be repeated annually to ensure funds are properly identified as counting towards financial need to ensure these quality control reports capture all students needing to be reviewed and/or have awards adjusted as a result of changes in aid throughout the award year. Student Financial Services has undergone a large turnover of staff, and a greater emphasis will be placed on training and retraining counselors to ensure students are awarded correctly based on their calculated financial need after transfer credits are received.

Reason for Reoccurring Finding and Planned Corrective Action: See corrective action plan for finding 2018-006

Finding Number: 2017-003 Lack of notification of first payment due date to borrowers

Condition: During the student file testing it was noted that Heartland Campus Solutions ECSI (ECSI) had not complied with the Third-Party Eligibility Compliance Requirements listed in Section IV of the Department of Education SFA Guide. Procedures performed as part of the third party servicer audit identified that four of twenty five borrowers selected for testing by third-party service provider's auditor had not been sent all grace notices as required by 34 CFR 674.42(c).

Recommendation: That the University work with ECSI to identify specific causes and proposed resolution for noncompliance identified. If ECSI cannot implement immediate corrective action, recommended that the University implement new procedures in the short term to identify and monitor all students in the grace period for Perkins to ensure required notifications were being made to students.

Current Status: Corrected. Our current year testing did not identify any instances where ECSI had not complied with the Third-Party Eligibility Compliance Requirements.

Reason for Reoccurring Finding and Planned Corrective Action: Not applicable

**Southeastern University, Inc. and Subsidiary
Auditee Corrective Action Plan
May 31, 2018**

Financial Statement Findings

Finding Number: 2018-001 Management's Application of Generally Accepted Accounting Principles

Planned Corrective Action:

The University recognizes this long-held practice and is implementing processes in the current cycle to adhere to GAAP for monthly reporting and to reduce the time and effort required to close out the year.

Person Responsible for Corrective Action Plan:

VPCFO, Sr. Director of Finance, Controller, Accounting Manager

Anticipated Date of Completion:

June 30, 2018

Finding Number: 2018-002 Historical Reliance on External Audit and Lack of Oversight by Those Charged with Governance

Planned Corrective Action:

This recommendation will be forwarded to the board of trustees for consideration

Person Responsible for Corrective Action Plan:

VPCFO

Anticipated Date of Completion:

May 2019

Finding Number: 2018-003 Lack of Segregation of Duties

Planned Corrective Action:

The university is studying this observation at this time and will be crafting appropriate procedures and practices to mitigate risk in the identified areas

Person Responsible for Corrective Action Plan:

Leadership Team (President & VP's)

Anticipated Date of Completion:

This is an ongoing effort of the Leadership Team

**Southeastern University, Inc. and Subsidiary
Auditee Corrective Action Plan
May 31, 2018**

Financial Statement Findings, continued

Finding Number: 2018-004 Journal Entries

Planned Corrective Action:

The Senior Director of Finance and treasury will be approving all manual journal entries.

Person Responsible for Corrective Action Plan:

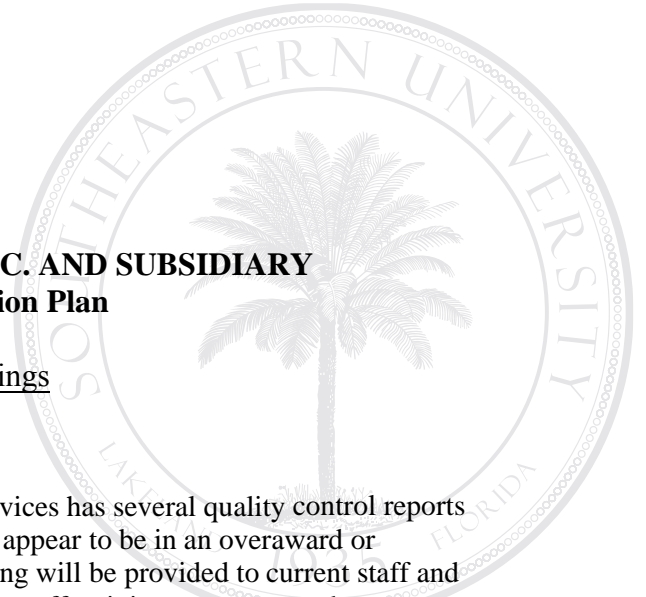
Sr. Director of Finance, Controller, Accounting Manager

Anticipated Date of Completion:

June 30, 2018

SOUTHEASTERN UNIVERSITY

SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY
Auditee Corrective Action Plan
May 31, 2018
Federal Award Findings



Finding Number: 2018-005 Need Analysis

Planned Corrective Action: The Office of Student Financial Services has several quality control reports that can be generated at any day/time to identify any students who appear to be in an overaward or underaward situation for need based Title IV aid. Additional training will be provided to current staff and greater emphasis will be placed on the awarding procedures in new staff training to ensure students are awarded correctly based on their calculated financial need after transfer credits are received. Student Financial Services is working closely with the registrar's office to develop a report that can be generated weekly to identify students who have an increase to their completed hours due to transfer credits, alerting counselors to increase loan eligibility based on the resulting year in college.

Person Responsible for Corrective Action Plan: Director, Jody Walker and Associate Directors, Ivette Valentin; Office of Student Financial Services

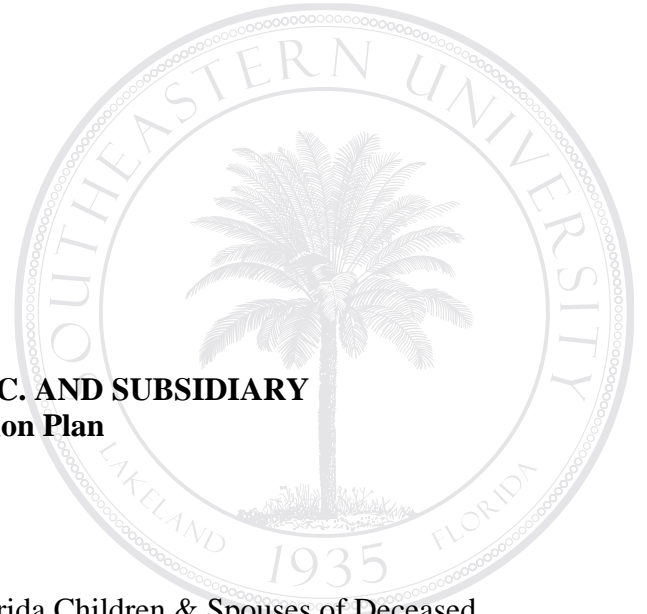
Anticipated Date of Completion: By the start of Spring semester (2018-19 academic year).

Finding Number: 2018-006 Inaccurate Reporting Enrollment Status to the National Student Loan Data System (NSLDS)

Planned Corrective Action: Action Plan (Registrar's Office): The Registrar's office has updated the grade table to recognize that the 'W' withdrawal grade as a withdrawal grade, which was not previously indicated. This feature was not updated in the database before the start of the Fall semester; however, the policy has now been changed. The Registrar's office's policy reflects that the recording the withdrawal grades will have the updated date and reason codes at the time of student's withdrawal.

Person Responsible for Corrective Action Plan: Office of the Registrar, the Data Technician and Reporting Specialist, Renee Beals.

Anticipated Date of Completion: Immediate



SOUTHEASTERN UNIVERSITY, INC. AND SUBSIDIARY
Auditee Corrective Action Plan
May 31, 2018

Finding Number: 2018-007 Ineligible Student for Florida Children & Spouses of Deceased and Disabled Veterans (CSDDV)

Planned Corrective Action: Student Financial Services and the Office of the Registrar has created processes and reporting to prevent reoccurrence.

Person Responsible for Corrective Action Plan: Ivette Valentin and Melissa Maisenbacher

Anticipated Date of Completion: Immediate